City of Minneapolis FY 2003 Budget Financial Policies

Financial Management Policies

The City of Minneapolis Financial Management Policies provide a basic framework for the overall fiscal management of the City. The policies represent a foundation to address changing circumstances and conditions, and assist in the decision making process. The financial policies represent guidelines for evaluating both current activities and proposals for future programs.

The financial management policies reflect long-standing principles and practices, which have enabled the City to maintain its financial stability. It is intended that the policies be reviewed annually so that the guidelines represent a realistic, current framework for public policy decisions. The last year the Mayor and City Council formally adopted a comprehensive list of the Financial Management Policies was 1988. Annually the City Council and Mayor have adopted policy resolutions during the budget adoption process which have modified and updated the Financial Management Polices.

The information that follows provides a summary of the current Financial Management Policies for the following areas:

- Operating and Capital Budget Policies
- Revenue Policies
- Reserve Policies
- Debt-Policies
- Capital Budget Policies
- > Citizen Participation Policies
- Accounting Policies
- > Investment Policies
- Development Finance Policies

Operating Budget Policies

Basis of Budgeting

All governmental and agency funds budgets are created using the modified accrual basis. Their revenues are budgeted if they are measurable and available as net current assets. Major revenues that are determined to be susceptible to accrual include property taxes, special assessments, grants-in-aid, intergovernmental revenues, rentals, franchise fees, and intra-City charges. Interest on investments, short-term notes and loans receivable are accrued; interest on special assessments receivable is not accrued or budgeted. Major revenues that are determined not to be susceptible to accrual because they are not available soon enough to pay liabilities of the current

period or are not objectively measurable include delinquent property taxes and assessments, licenses, permits, fines and forfeitures. Delinquent property taxes are not budgeted, while the other categories are.

In the governmental and agency funds, expenditures are generally budgeted under the modified accrual basis when the related fund liability is incurred, except for principal and interest on general long-term debt which is recognized when due. Compensated absences, which include accumulated unpaid vacation, compensatory time and severance pay, are not payable from expendable available financial resources, except to the extent there are available resources in the Self-Insurance Internal Service Fund for vested severance pay. Compensated absences are considered expenditures when paid to employees. Salary expenditures are budgeted based on full time equivalents (FTE's), regardless of what type of pay they may be earning.

Proprietary funds are created using the accrual basis. Revenues are budgeted as they are anticipated to be earned. Unbilled utility service receivables are recorded at year-end. Utility Service revenue estimates are based on the entire number of users, without a factor for delinquencies. Compensated absences are considered expenses when they are incurred.

In accordance with Governmental Accounting Standards Board Statement (GASB) No. 20 Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the City has chosen not to apply accounting standards issued by the Financial Accounting Standards Board after November 30, 1989, to its proprietary funds.

Capital projects funds adopt project-length budgets and budgetary control for debt service funds is achieved through general obligation bond indenture provisions.

The objective of the operating budget policies is to maintain adequate service levels at reasonable costs by following sound financial management practices. Each City department or division prepares its own budget for review by the Mayor to assist the Mayor in preparing a budget recommendation for the City Council.

Balanced Budget. The operating budget for the City shall be balanced. For each fund, ongoing costs are not to exceed ongoing revenues plus available fund balances used in accordance with reserve policies. It is a policy that the City shall not use debt or bond financing to fund current operating expenditures.

Performance Measurement. Performance measurement and productivity indicators shall be integrated into the annual budgeting process. All departments, boards, and agencies shall be reviewed annually by the appropriate City Council Committee for such performance criteria as program initiatives, compliance with policy direction, program effectiveness, and cost efficiency. During 1999, the Mayor and City Council adopted a performance measurement for the City of Minneapolis. Since adoption of this model, the City

has been working to implement and improve its performance measurement efforts.

Budgetary Controls. The legal level of budgetary control is at the department level within a fund. The City Coordinator's Office and the Public Works Department are considered to be legal levels of budgetary control within a fund even though budgetary data is presented at the level of the Departments within the Coordinator's Office and the Divisions within Public Works Department. Budgetary amendments at the department/fund level must be approved by the City Council. Appropriations lapse at year-end.

Purchase orders, contracts, and other commitments are recorded as encumbrances, which reserve appropriation authority. This accounting practice is an extension of formal budgetary integration in the General and Special Revenue Funds. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not represent generally accepted accounting principles (GAAP) expenditures.

The City maintains a budgetary control system to ensure adherence to the adopted budget and associated appropriations. Regular reports are provided through the City's financial system that compare actual revenues and expenditures to budgeted amounts.

Self-supporting Enterprises. All enterprise activities of the City shall be self-supporting to the greatest extent possible. These activities include, but are not limited to, water, sewer, convention center, parking ramps, municipal market, river terminal, certain park and recreation functions, certain library operations, and certain development activities.

Service Planning. All departments shall share in the responsibility of meeting policy goals and ensuring long-term financial viability. Future service plans and program initiatives shall be developed reflecting policy directives, projected resources and future service requirements. In order to ensure proper policy discussion, sunset provisions shall be incorporated into service plans, as appropriate.

Service Levels. The City shall attempt to maintain both essential service levels and constant or reduced burdens on taxpayers. Changes in service levels shall be governed by the following:

Budget Process. The annual budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints. Requests for near, ongoing programs made outside the annual budget process shall be discouraged.

Personnel Expenses. To the extent feasible, any personnel cost reductions shall be achieved through attrition and, where necessary through bumping actions. Additional personnel should only be requested to meet program initiatives and policy directives, after service needs have been thoroughly documented or it is substantiated that the new employees will result in increased revenue or enhanced operating efficiencies.

Grant Funded Programs. Programs financed with grant monies shall be budgeted in special revenue funds, and the service program shall be adjusted to reflect the level of available grant funding. In the event of reduced funding, City resources shall be substituted only after all program priorities are considered during the annual budget process.

Revenue Policies

The objective of the revenue policies is to ensure that funding for public programs is derived from a fair, equitable, and adequate resource base, while minimizing tax differential burdens.

Revenue Structure. It is a policy of the City to structure and maintain a stable revenue system to shelter programs and services from short-term fluctuations in any single revenue source.

Sources of Revenue. Services which have a city-wide benefit shall be financed with revenue sources which are generated from a broad base, such as property taxes and state aids. Services where the customer determines the use shall be financed with user fees, charges and assessments directly related to the level of service provided.

Tax Base Capacity. The objective of the City is to ensure that local general tax resources are not increased faster than the tax base capacity of the community. The Mayor and City Council approved a resolution, in July 2002, that set the maximum increase in the total property tax levy collected by the City, including independent boards and special levies, at no more than 8-percent from the previous years' amount from year 2003 forward. The adoption of this resolution serves as a guideline for preparing financial forecast projections for tax revenue.

User Fees. The City maximizes the utilization of user charges in lieu of general revenue sources for services that can be identified and where the costs are directly related to the level of service.

Cost of Service. The City shall establish user charges and fees at a level which reflects the costs of providing the service, to the extent legally allowable. Operating, direct, and indirect and capital costs shall be

considered in the charges. Full cost charges shall be imposed unless it is determined that policy and market factors require lower fees.

Policy and Market Considerations. The City shall also consider policy objectives and market rates and charges levied by other public and private organizations for similar services when fees and charges are established.

Annual Review. The City shall review fees and charges annually, and will make appropriate modifications to ensure that charges grow at a rate which keeps pace with the cost of efficiently providing the service.

Non-Resident Charges. Where practical, user fees and other appropriate charges shall be levied for activities or facilities in which non-residents participate in order to relieve the burden on City residents. Non-resident fees shall be structured at market levels so that resident users are subsidized to the greatest extent possible.

Water and Sewer Fees. User charges for water and sewer shall be sufficient to finance all operating, capital, and debt service costs for these utilities. Rates will be set such that these enterprise funds are never in a cash deficit during the year.

Building and Code Enforcement. These activities shall be funded through a user charge in the form of building permits, inspections and plan review fees. These fees shall represent the full cost of the operation cost, including overhead expenses.

Convention Center. The Convention Center Facility should develop a profit and loss statement for each event. The Center shall be managed so that operating costs are financed through user charges to the greatest extent possible within the overall mission of the Convention Center.

Parking Fees. Hourly, daily, and monthly contract rates for City-owned parking facilities shall be adjusted at least annually to reflect market prices of privately owned parking facilities. Fee adjustments shall also be consider overall downtown objectives, such as development incentives, space availability, business promotion, traffic control, and mass transit patronage.

Data Fees. Pursuant to the Minnesota Government Data Practices Act and unless otherwise provided for by Federal Law and State Statute or rule, fees for obtaining government data shall be recommended by departments based on the actual costs of providing such service. Fees shall not be charged for viewing of data only.

Internal Service Fees. When interdepartmental charges are used to finance internal enterprise functions, charges shall reflect full costs, including all indirect expenses.

License Fees. The City shall establish license fees at levels which reflect full administrative costs, to the extent legally allowable.

Fines. Levels of fines shall be requested according to various considerations, including legal guidelines, deterrent effect, administrative costs and revenue potential. Because the purpose of monetary penalties against those violating City ordinances is to deter continuing or future offenses, the City shall not request any increase in fine amounts with the singular purpose of revenue enhancement.

Dedicated Revenues. Except where required by law or generally accepted accounting principles (GAAP), no revenues shall be dedicated for specific purposes. All non-restricted revenues shall be deposited in the General Fund and appropriated by the annual budget process.

Private Revenues. All private money donated, contributed or lent to the City for operations, maintenance, purchase of equipment, supplies, land or capital facilities shall be subject to current grant solicitation and acceptance procedures and shall be deposited in the appropriate City fund and accounted for as public money through the City's budget process and accounting system.

Administrative Fees. An administrative fee shall be assessed on all non-General Fund supported capital projects to insure that overhead charges are properly allocated and that the General Fund is not required to subsidize infrastructure or economic development projects. The fee shall be calculated annually and shall be based on actual historic costs and expected future years expenses for all appropriate administrative costs not directly assessed to MCDA and Public Works projects.

Reserve Policies

The objective of the reserve polices is not to hold resources solely as a source of interest revenue, but rather to provide adequate resources for cash flow and contingency purposes, while maintaining reasonable tax rates.

Cash Flow and Contingency. The City shall maintain a minimum "base" unallocated fund balance of 10 percent of the Operating Tax Funds budget to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs. These funds represent approximately five weeks of expenditures and will be used to avoid cash flow interruptions, generate interest income, avoid the need for short-term

borrowing and assist in maintaining a triple-A bond rating. To the extent that unusual contingencies exist as a result of state or federal aid uncertainties, salary settlement estimates, or other unknowns, a balance larger than this "base" amount shall be maintained.

Appropriate operating contingency reserves shall be maintained in enterprise funds to provide for unanticipated expenditures of a non-recurring nature.

Appropriate capital replacement reserves shall also be maintained to fund emergency improvements relating to new regulations and standards, capital repair and replacement.

For all other funds, appropriate balances shall be maintained in other City funds reflecting the nature of the accounts:

Special Assessment Funds. The appropriate balance for these funds, which are traditionally used for capital project cost adjustments, shall be the amount needed for revolving fund cash flow purposes.

Permanent Improvement Funds. Tax section fund (40 Fund) balances shall be maintained for those projects which have been earmarked for future expenditures.

Sinking Funds. The sinking funds are restricted debt service reserve funds. Balances in these funds shall be maintained according to legal requirements.

Use of Fund Balances. Available fund balances shall not be used for on-going operating expenditures, unless determination has been made that available balances are in excess of required guidelines and that plans have been established to address future operating budget shortfalls. Emphasis shall be placed on one-time uses which achieve future operating cost reductions.

Projected Changes to Fund Balance in 2003

The budget document includes changes to fund balance in Schedule One of the Financial Schedules section. These fund balance changes are a result of timing of capital projects and development projects. In the case of drawing down of fund balances, revenues related to these projects (tax increment financing, sale of bonds) have been received in the prior year. In the case of additions to fund balances, the funds are being reserved for future projects, or are paying back short-term borrowing. Prior year fund balances are presented in the City's annual financial report, published in late spring.

Annual Review. An annual review of cash flow requirements and appropriate fund balances shall be undertaken to determine whether modifications are appropriate for the reserve policy.

Debt Polices

The objective of the Minneapolis debt management policies is to maintain the City's ability to incur present and future debt at minimal interest rates in amounts needed for infrastructure and economic development of the City without endangering the City's ability to finance essential City services.

In addition to these general polices, specific guidelines have been adopted by the City Council and Board of Estimate and Taxation to manage Minneapolis debt practices. The specific guidelines detail criteria for approval and capacity measurement.

General Obligation Bonds, Property Tax Supported. The City utilizes general obligation, property tax supported bonding to finance only those capital improvements and long term assets which have been determined to be essential to the maintenance or development of the City.

Revenue Supported Bonds. The City utilizes tax increment supported bonds only where projects can be shown to be self-liquidating from tax increments arising in sufficient amounts or where secured guarantees are provided for potential shortfalls, and with appropriate timing to avoid the use of city-wide property tax revenues and where maximum allowable guarantees are obtained.

Special Obligation Revenue Bonds. Special obligation revenue bonds, those bonds for which the City incurs no financial or moral obligation, are issued only if the associated development projects can be shown to financially feasible and contributing substantially to the welfare and/or economic development of the City and its citizens.

Limitations on Issuance of Debt. It is a policy of the City to establish and maintain limitations on the issuance of new property tax base supported bonded indebtedness which will promote a balanced relationship between expenditures for debt service and current municipal costs, and assist in minimizing the overall property tax burden. The City limits the issuance of new bonded debt so as to maintain or make improvements in key financial trend lines over time.

Variable Rate Debt. The City may elect to issue bonds as variable rate instruments to provide flexibility and/or attempt to achieve interest savings.

Debt Management. City Financial Management Policies shall be designed to maintain a balanced relationship between debt service requirements and current operating costs, encourage growth of the tax base, actively seek alternative funding sources, minimize interest costs and maximize investment returns.

Bond Term. The City shall issue bonds with terms, no longer than the economic useful life of the project. For self-supporting bonds, maturities and associated debt service shall not exceed projected revenue streams.

Feasibility. The City shall obtain secured guarantees for self-supporting and tax increment supported bonds to the extent possible. The City shall also obtain assurances of project viability and guarantees of completion prior to the issuance of bonds.

Capital Budget Polices

The objective of the capital budget policies is to ensure that the City of Minneapolis maintains its public infrastructure in the most cost-efficient manner.

Capital Improvement Program. The City prepares and adopts a five-year Capital Improvement Program (CIP) which details each capital project, the estimated cost and funding source. An adopted priority system is used to rank and recommend projects.

Operating Budget Impacts. Operating expenditures are to be programmed to include the cost of implementing the CIP and are to reflect estimates of all associated personnel expenses and operating costs attributable to the capital outlays.

Repair and Replacement. The City is to maintain its physical assets at a level adequate to protect the City's capital investments and minimize future maintenance and replacement costs. The capital budget is to provide for the adequate maintenance, repair and orderly replacement of the capital plant and equipment from current revenues where possible.

Citizen Participation Policies

The objective of the citizen participation policies is to help ensure the continued involvement of the Minneapolis citizens in order to enhance the City's ability to meet challenges of the future in a constructive and innovative manner. Minneapolis has long believed that its most important resource is an informed citizenry involved in the decision-making process. The City has maintained its fiscal strength through the commitment on the parts of citizens and government to managing the City's resources.

Financial Reports. Financial information shall be provided to citizens on the City budget and financial audits in a form that is more understandable to the public than line-item budgets and audited documents. An annual financial review shall be made available to interested parties and selected financial summary information shall be published through citizen guides. The budget book is available on the internet.

Budget Input. Appropriate methods shall be used to ensure viable citizen input into the budgeting process. Informational hearings, citizen-based review

committees (i.e., Capital Long-Range Improvement Committee) and other techniques shall be used to help ensure adequate input.

Performance Measurement. The City Council and Mayor adopted citizen engagement strategies relating to performance measurement in August of 2000. These strategies include community meetings (first held in fall of 2000), the publication of an annual report with outcome information (forthcoming), and a report of outcomes on the City's website.

Citizen Survey. The City Council and Mayor funded a random sample telephone survey to assess citizen opinions and expectation regarding City services and priorities for the future, with the survey first conducted in fall of 2000.

Citizen Access. All residents and businesses of the City of Minneapolis shall be afforded access to City budget information.

Accounting Policies

The objective of the accounting policies is to ensure that all financial transactions of the City of Minneapolis and its boards, commissions, and agencies are carried out according to the dictates of the City Charter, State Statutes, federal grant guidelines, and the principles of sound financial management.

Accounting Standards. The City shall establish and maintain accounting systems according to the generally accepted accounting principles and standards (GAAP) of the Government Finance Officers Association (GFOA) and the Governmental Accounting Standards Board (GASB). The central system shall be used for financial transactions of all City departments, boards, and independent agencies.

Annual Audit. An annual audit is performed by the State Auditor's Office which issues an official opinion on the annual financial statements, with a management letter detailing areas that need improvement, if required.

Disclosure and Monitoring. Full disclosure is provided in all financial statements and bond representations. Financial systems are maintained to monitor expenditures and revenues on a four-week period basis, with a thorough analysis and adjustment, if required, at mid-year.

Government Finance Officers Association Award. The City annually submits necessary documentation to obtain the Certificate of Excellence in Financial Reporting.

Investment Policies

The objective of the investment policies is to ensure that all revenues received by the City are promptly recorded and deposited in designated depositories, and if not immediately required for payments of obligations, are placed in authorized investments earning interest income for the City according to defined criteria.

Investment Objectives. The following objectives govern Minneapolis investments, as listed in order of importance:

Safety. Safety of principal is the foremost objective of the City of Minneapolis. Each investment transaction shall seek to first ensure that capital losses are avoided, whether from securities defaults or erosion of market value.

Liquidity. The cash position of the City of Minneapolis has peaks and valleys during the year which requires that a portion of the investment portfolio emphasize liquidity. The City of Minneapolis shall consider liquidity as a priority, while still recognizing the need to maximize yield.

Yield. The investment portfolio of the City of Minneapolis shall be designed to attain a market-average rate of return through budgetary and economic cycles, taking into account the City's investment risk constraints, cash flow characteristics of the portfolio and prudent investment principles.

Local Considerations. Subject to requirements of the above priority objectives, it is the policy of the City of Minneapolis to offer financial institutions within the City the opportunity to bid on investments. However, the City shall seek the best investment yield through a competitive process.

Maintaining the Public Trust. Because the investment portfolio is subject to public review and evaluation, the overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City of Minneapolis' ability to govern effectively.

Types of Investments. The City of Minneapolis shall only invest in those instruments authorized within the City's Financial Management Policies, and/or Minnesota Statute, and/or Council resolution.

Diversification. It is the policy of the City of Minneapolis to diversify its investment portfolios. Assets held in the General Fund and other investment funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class

of securities. Diversification strategies shall be established, with a periodic review and revision, as appropriate.

Prudence. The "prudent person" standard shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for and individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

Internal Controls and Safekeeping. The City Finance Officer shall establish a system of internal controls, which shall be documented in writing. To protect against potential fraud and embezzlement, assets of the City of Minneapolis shall be secured through third party custody and safekeeping procedures. Bearer instruments shall be held only through third party institutions. Investment officials shall be bonded to protect the public against possible embezzlement and malfeasance.

Development Finance Policies

The objective of the Development Finance Policies is to provide for orderly public assistance of community development efforts in a manner which balances costs against benefits. In addition to these general policies, specific guidelines have been adopted by the City Council, Mayor, and Minneapolis Community Development Agency Board to manage specific development resources and programs. The City's Financial Management Policies outline general policy direction and are supportive of the specific guidelines for development finance.

To the greatest extent possible, all development activities shall be self-supporting so that impacts on the City's operating tax funds are minimized. Sufficient public and private resources shall be identified at the time a project is approved to ensure feasible completion and operation of the project. All development financing proposals shall be reviewed in order to certify that the proposed financial plan is reasonable, balanced, and the best deal possible to achieve City objectives, while adequately protecting overall City-wide financial interests.

City of Minneapolis FY 2003 Budget Financial Policies

Fund Descriptions

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equities, revenues and expenditures/expenses. Provided below is a listing of all City Funds.

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Enterprise Funds - The Enterprise Funds are used to account for those activities of the City which are financed and operated in a manner similar to private business enterprises where costs and expenses, including depreciation, are recovered principally through user charges. The City operates six enterprise funds, including the City's Community Development Agency (MCDA):

Water Works Fund

This fund is used to account for the operation, maintenance, and construction projects related to the water delivery system. This fund also accounts for the operations related to the billings for water, sewage, and solid waste fees.

Sewer Rental Fund

This fund is used to account for sewage fees collected from customers connected to the City's sewer system and for all expenses of operating this system. This fund also accounts for storm water management activities.

Solid Waste and Recycling Fund

This fund is used to account for the revenues and expenses for solid waste collection, disposal and recycling activities.

Municipal Parking Fund

This fund is used to account for the operation, maintenance, and construction of the City's parking facilities as well as on-street parking and the Municipal Impound Lot.

> River Terminal

This fund is used to account for the operations of the public terminal facility located on the Mississippi River.

Internal Service Funds - Internal Service Funds are similar to Enterprise Funds in that they are used to account for those City services which are financed and operated in a manner similar to private business enterprises, except for in the case of Internal Service Funds, the customer is typically other City departments instead of the public. The City operates six Internal Service Funds:

Engineering Materials and Supplies

This fund is used to account for the operations of the City's asphalt plant and paving products laboratory. The paving products laboratory provides in-lab and on-site testing and soil boring services to ensure quality control of asphalt and soils for projects.

> Intergovernmental Services

This fund is used to account for information technology services, central mailing and printing services, and the City's telecommunication operations.

> Property Services

This fund is used to account for the physical management and maintenance of fire stations, police precinct buildings, the Minneapolis Public Service Center, and various other City office locations, except for the City Hall/County Court House building, which is accounted for in the Municipal Building Commission Special Revenue Fund.

Permanent Improvement Equipment

This fund is used to account for the ownership and operation of radio communications equipment and a fleet of motorized equipment and vehicles. The fund operates as a rental agent to various departments to support the construction and maintenance of city infrastructure, fire protection services, and police services.

Public Works Stores

This fund is used to account for the centralized procurement, warehousing, and distribution of stocked inventory items, and the purchase of special goods and services.

Self-Insurance

This fund is used to account for employee medical, dental, and life insurance benefit programs and the programs' administrative costs. The fund also accounts for occupational health services, severance payments to employees who have retired or resigned and who meet

minimum eligibility requirements, a tort liability program, and a workers' compensation program.

Special Revenue Fund - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by legal and regulatory provisions to finance specific activities. The City has eleven Special Revenue Funds:

Arena Reserve Fund

This fund is a holding fund for various finance plan revenues to be used for future cost relating to the acquisition and capital maintenance of the downtown sports, entertainment and health complex.

Board of Estimate and Taxation Fund

This fund is used to account for the operations of the Board of Estimate and Taxation which issues and sell bonds, and establishes the maximum levies for the City, its boards and commissions.

Community Development Agency Fund

This fund is used to account for the general fund and the special revenue fund activities of the Minneapolis Community Development Agency (MCDA), a component unit of the City of Minneapolis.

> Community Development Block Grant

This fund is used to account for the federal grants received under the Federal Community Development Block Grant provisions.

Convention Center

This fund is used to account for the ownership, maintenance, and operation of the Minneapolis Convention Center, and the proceeds of the local sales and use tax.

> Convention Facilities Reserve

This fund is a holding fund for parking and sales tax revenues to be used for future capital maintenance needs of the existing Convention Center.

> Employee Retirement

This fund is used to account for the tax levy proceeds and other sources of revenue for the Minneapolis Employee Retirement Fund (MERF), Minneapolis Firefighters' Relief Association (MFRA), and Minneapolis Police Relief Association (MPRA) retirement programs for some city employees.

> Grants - Federal

This fund is used to account for all federal grants, except for the Community Development Block Grant (CDBG), which is accounted for in a separate fund.

> Grants - Other

This fund is used to account for grants received from the State of Minnesota, Hennepin County, local government units, and private funds.

Municipal Building Commission

This fund is used to account for the cost of operating and maintaining the City Hall/County Court House building.

> Police

This fund is used to account for the revenues and expenditures related to federal and state administrative forfeitures and the revenues and expenditures related to the regulation of lawful gambling in the City.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources and expenditures applied to the construction of capital facilities and major purchased items for governmental fund types.

> Community Development Agency Capital Fund

This fund is used to account for the capital project activities of the Minneapolis Community Development Agency (MCDA), a component unit of the City of Minneapolis.

Municipal Building Commission (MBC) Capital Fund

This fund is used to account for the capital project activities of the MBC, a component unit of the City of Minneapolis.

Permanent Improvement Capital Fund

This fund is used to account for capital acquisition, construction, and improvement projects including bridge construction, sidewalk construction, street construction, completion of the Minneapolis Convention Center, energy conservation projects, infrastructure projects, and many Information Technology System (ITS) projects.

Debt Service Funds - The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs. Included in the Debt Service Funds are:

Community Development Agency Debt Service Fund

This fund is used to account for the debt service activities of the MCDA, a component unit of the City of Minneapolis, and includes the Arena Acquisition Project (Target Center) Series A and B bonds, Tax Increment Bonds of 1990, debt of the Orpheum Theatre Project, and Tax Increment Revenue Notes.

Development Debt Service Fund

This fund is used to account for the debt of projects supported by property tax increments, transfers of sales tax revenues from the Convention Center Special Revenue Fund for related debt, and a state grant relating to the completion of the Convention Center.

General Debt Service Fund

This fund is used to account for General Obligation Bonds supported by a property tax levy, Management Information System debt supported by the City's General Fund, Great River Road Bonds, Edison Hockey, Community Health, Xcel Power- Revenue and Section 108 HUD Revenue Notes.

Special Assessment Debt Service Fund

This fund is used to account for debt supported by special assessments with the exception of the Park Diseased Tree debt.

City of Minneapolis Birds Eye View of the Relationship between Fund Types, Revenue Sources, Expenditures and Departments/Boards

	Fund Type:		
	General Fund	Enterprise Funds Including: Water Sewer Solid Waste Parking	Internal Service Funds Including: Engineering Materials, Intergovernmental Services, Property Services, Equipment, Stores, Self-insurance
Major Revenue Sources	Local Government Aid, Property Taxes, Franchise Fees, Licenses and Permits	Utility Charges, State Grants and Contributions, Rents	Charges for Services, Rents, Transfers from other funds
Expenditure classifications	Personnel, Operating Costs, Contractual Services, Equipment	Personnel, Operating Costs, Contractual Services, Equipment, Capital Projects and debt service related to these business lines	Personnel, Operating Costs, Contractual Services, Equipment, Capital Projects and debt service related to these business lines, liability and workers compensation claims
Major Departments	Police, Fire, Public Works, among others	Public Works	Public Works, Copy Center, City Attorney – Civil Division, Information Technology Services
	Special Revenue Funds	Capital Projects Funds	Debt Service Funds
Revenue Sources	Grants, Sales Taxes	Property Taxes, Proceeds from Long Term Liabilities, State Aid	Property Taxes, State Aid
Expenditure classifications	Personnel, Operating Costs, Contractual Services, Equipment	Capital project expenditures related to street construction and infrastructure projects	Payments of interest and principal on City's debt
Departments	Convention Center, Health and Family Support, Attorney, Fire, Police, Convention & Visitor's Association, Closed Pension Plans	Public Works	Not Applicable

City of Minneapolis Birds Eye View of the Relationship between Fund Types, Revenue Sources, Expenditures and Departments/Boards, continued

	Fund Type:		
	Park Board Funds The Park Board has enterprise, internal service and special revenue funds. The Park Board's general fund is treated as a special revenue fund.	Library Board Fund The Library has a general fund which is treated as a special revenue fund.	Minneapolis Community Development Agency (MCDA) Funds The MCDA has capital, debt service, enterprise and special revenue funds.
Revenue Sources	Property Taxes, Local Government Aid, Charges for Sales (golf courses, etc.), Contributions, and Grants	Property Taxes, Local Government Aid, Charges for Services	Property Tax Increment Financing, Charges for services and rents relating to development projects Grants (especially the City's Community Development Block Grant)
Expenditure classifications	Personnel, Operating Costs, Contractual Services, Equipment	Personnel, Operating Costs, Contractual Services, Equipment	Personnel, Operating Costs, Contractual Services, Equipment, Capital Expenditures on development projects, debt service on development projects

The City has funds set up for other smaller boards:

- Municipal Building Commission (funded mainly from Property Tax and State Aids)
- > Board of Estimate and Taxation (funded from Property Tax and State Aids)
- > Neighborhood Revitalization Program (funded from Property Tax Increment Financing)
- Youth Coordinating Board (a joint board funded from the City's general fund and grants)

More detail on these boards can be found in the Background and Independent Board sections of this book.

City of Minneapolis FY 2003 Budget Financial Policies

Proposed City of Minneapolis Financial Planning and Policy Resolution: Independent Boards

Mayor and Council Adopted, July 2002 Board of Estimate and Taxation Adopted, July 2002

Whereas:

- 1. At the direction of the Mayor and City Council, the City has prepared a ten-year financial projection of demands on the city property-tax supported funds, a summary of which is attached as Exhibit A and incorporated herein by reference;
- 2. The projection demonstrates that the known demand on property tax revenues will significantly exceed reasonably foreseeable resources;
- The Mayor and Council are developing a long-term strategy for managing the financial challenges documented in the ten-year projection and wish to engage the Independent Boards and the Board of Estimate and Taxation as partners in that strategy;
- 4. Recognizing that all City of Minneapolis taxing jurisdictions draw revenue from the same taxpayers, The Mayor and Council support an enterprise approach to establishing future property tax revenue projections. The Mayor and Council further support setting the maximum annual property tax levy at no more than an 8-percent annual increase for budget years' 2003 through 2010, inclusive of the levy for the Independent Boards, including the voter-approved library referendum;
- 5. The Mayor and Council desire to work with the Independent Boards and the Board of Estimate and Taxation to set long range financial parameters so that our joint taxpaying customers and our individual City governing boards can all make more informed business decisions about respective annual budgets.
- 6. The Mayor and Council desire to work with the Independent Boards in a fair and consistent manner.

Therefore Be It Resolved, That the Mayor and Council hereby adopt the following Policy Statements as provided below in Items A through E, with respect to the Independent Boards, to serve as a framework for developing the 2003 budget as well as long-term financial plans for the City and Independent Boards; and

Be It Further Resolved That the Mayor and Council submit to the Board of Estimate and Taxation recommended maximum property tax levies for taxes payable in year 2003, as

shown in Appendix A. The Mayor and Council also request the Board of Estimate and Taxation to consider adopting parallel policy statements to Policy Statements A through E, adopted by the Mayor and Council as part of this resolution.

Policy Statements (A through E):

(A) Local Government Aid (LGA) from the State of Minnesota

The Mayor and Council will remain committed to August 26, 1994, Council action which based the annual enterprise distribution of LGA revenues on a stable percentage in exchange for a cap in individual board property tax levies.¹

The Mayor and Council will allocate LGA consistent with the 1994 agreement provided the independent boards adhere to the tax levy provision outlined in the original agreement, with the one modification. The Mayor and Council hereby propose amending the policy to provide for a maximum 4-percent annual increase in property tax levy versus the 3-percent included in the original 1994 agreement.

Consistent with the 1994 adopted agreement with the Independent Boards, the Council will distribute LGA based upon the following percentage allocation, as outlined below.

	% Distribution of LGA
Library Board	8.05%
Library Board Park Board ²	11.79%
Municipal Building Commission	0.30%
Board of Estimate and Taxation	0.10%
City Council	79.76%
Total	100.00%

The Council policy will continue to be that the City and the Independent Boards will share any legislative reductions or increases in LGA, using the same percentages as outlined above.

In the event an Independent Board's property tax levy increase exceeds 4percent (adjusted for any one-time shifts), the City Council will reduce the LGA payment to the board to offset the additional increase.

¹ LGA is calculated and distributed to the City by the State of Minnesota as provided for in State Statute 477A.

² The allocation of LGA to the Park Board will increase from 10.89% in budget year 2002 to 11.79% in budget year 2003, provided the Park Board reduces their base property tax levy by \$1.0 million, which will be added to the City's General Fund base levy. The allocation of LGA to the General Fund will decrease from 80.66% in budget year 2002 to 79.76% in budget year 2003. This net result will be a \$1.0 million shift in LGA distribution from the General Fund to the Park Board and a \$1.0 shift in property tax levy from the Park Board to the General Fund, from budget year 2002 to 2003.

If state legislation creates new aid programs for general city purposes, the Mayor and Council expresses the intent to negotiate with the Independent Boards an appropriate allocation basis for this revenue.

(B) Management Support Charges

The Independent Boards will be charged for the actual cost of providing management support services to the boards. The basis for allocating costs will be the same as that used for Council departments. Management support services include, but are not limited to, services provided by the following city departments: Information Technology, Finance, and Human Resources.

Management support charges, as included in the Council's adopted 2002 budget, will be capped at \$800,000 for the Park Board and \$300,000 for the Library Board for both the 2002 and 2003 budget.

Beginning with the 2004 budget, the management support charges to the Independent Boards will be based upon standard accounting practices for allocating costs. The method and procedure to calculate the pro-rated costs and collection of the charge will be finalized and communicated to the Independent Boards by December 31, 2002.

As provided for in the 2002 budget footnotes, the City Finance Officer has the authority to reduce LGA payments to the Independent Boards if payment of the management support charge is not received prior to the distribution of the December LGA payment.

(C) Adjustments to Prior Year Increases in Property Tax Levies

As stated in Item A, the Mayor and Council remain committed to the 1994 budgetary policy regarding the Independent Boards. The 1994 policy has two parts (1) a stable percent allocation of LGA and (2) a 3-percent cap in annual property tax levy increases for the Independent Boards, which will be amended to a 4-percent cap beginning with the 2003 budget. The Park and Library Boards both had increases in 2002 property tax levies above this threshold. The Mayor and Council consider the portion of property tax levy increase above the policy threshold to be one-time funds for year 2002. The baseline tax levies for both entities should return to a level that corresponds to the 1994 agreement.

(D) Infrastructure Gap Funding

The Mayor and Council will support funding infrastructure "gap" closure for the Independent Boards in a similar manner to that of Public Works.

The City's adopted 2002-2006 Capital Improvement Plan (CIP) provides for closing 27% of Public Works infrastructure "gap", supported by property taxes, by year 2009³. To achieve this goal the property tax levy will need to increase by \$1.0 million annually from 2003 to 2009.

The Mayor and Council support a future funding plan for the Park Board that closes 27% of the previously identified \$5.5 million annual funding gap for park infrastructure by 2009. To achieve this goal \$215,000 of additional property tax levy will be added annually to the Park Board levy, for a total of \$1.5 million in additional annual funding by 2009.

The Mayor and Council support reducing the base property tax revenue for the Park Board by the amounts added in years' 2001 and 2002 for Park Board capital purposes. In years' 2001 and 2002, \$1.5 million was added each year to the Park Board base property tax levy, or \$3.0 million in total over this two-year period of time. The Park Board has received the benefit of the additional \$4.5 million collected in property tax levy over this two-year period of time.

Recommended Park Board Capital Improvement Plan:

(In millions of dollars)	2003	2004	2005	2006	2007	2008	2009
Base Capital Funding ⁴	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9
"Gap" Funding	\$0.2	\$0.4	\$0.6	\$0.9	\$1.1	\$1.3	\$1.5
Total Capital Funding	\$2.1	\$2.3	\$2.5	\$2.8	\$3.0	\$3.2	\$3.4

(E) Alternative Revenue Strategies

The Mayor and Council will work in cooperation with the Park Board and Library Board to develop alternative funding strategies (i.e., land trusts and expanded friends of the parks and library), other than the property tax, for raising additional funds to support program and capital needs.

The Mayor and Council will not support any new referenda for the Independent Boards because of the significant pressure a referendum would create on the already burdened property tax. The Mayor and Council will act to educate taxpayers about the financial burden any new referenda would create for taxpayers.

_

³ The 1997 State of the Public Works Infrastructure Report identified a \$44 million property tax supported funding gap for improving and maintaining public works infrastructure. The original plan was to fund 50% of this gap over a 10-year period time.

⁴ The 2002-2006 adopted CIP includes \$1,920,000 in net debt bond funding for the Park Board.

Adopted Amendments:

1. Amendment to add an additional Policy Item, Policy Item F

The Mayor and City Council will support annual property tax increases for the Minneapolis Public Housing Authority at the same maximum 4-percent annual increase level as that established (in Policy Statement A) by this resolution for the Park Board, Library Board, Municipal Building Commission, and Board of Estimate and Taxation.

2. Amendment to Policy Item A

Amend Policy Item A to include the following language:

In the event the City Council reduces the LGA payment to an Independent Board (as provided for in this policy statement), the City will appropriate the additional LGA to the City's General Fund and reduce the City's General Fund property tax levy by an offsetting amount. This will be done in order to ensure the maximum property tax levy increase is maintained at 8-percent on a combined basis for the City, including the Independent Boards.

APPENDIX A

Certified Gross Property Tax Levy For City Council, Independent Boards, and Special Levies

	2001	2002		2003		
	Adopted Base Levy	Adopted Base Levy	2001 to 2002 % Chg	Proposed Base Levy	2002 to 2003 % Chg	2001 to
	Base Levy	Base Levy	2002 70 Ong	Base Levy	2003 /0 Olig	2003 /0 Olig
City Council Funds City Council - Internal	63,028,212	53,632,760	-14.9%	61,495,761	14.7%	-2.4%
Service Funds	4,000,000	7,200,000	80.0%	10,900,000	51.4%	172.5%
Total City Council	67,028,212	60,832,760	-9.2%	72,395,761	19.0%	8.0%
City Council Debt Service ⁵	21,877,000	28,560,040	30.5%	29,060,040	1.8%	32.8%
Park Board	27,809,943	34,796,759	25.1%	32,671,759	-6.1%	17.5%
Library Board	10,374,165	11,852,485	14.3%	11,242,485	-5.1%	8.4%
Library Referendum ⁶				450,000		n/a
Total Library	10,374,165	11,852,485	14.3%	11,692,485	-1.3%	12.7%
Municipal Building Commission ⁷	2,511,026	3,272,966	30.3%	3,502,966	7.0%	39.5%
Board of Estimate and Taxation	114,000	124,000	8.8%	128,960	4.0%	13.1%
City Council Pensions ⁸	3,492,260	7,373,000	111.1%	9,373,000	27.1%	168.4%
City Council Community Development (Special Levy)		4,000,000	n/a	4,160,000	4.0%	n/a
Minneapolis Public Housing Authority (Special Levy)	1,000,000	1,000,000	0.0%	1,040,000	4.0%	4.0%
Teachers Retirement Fund (Special Levy) ⁹	1,950,100	2,100,000	7.7%	2,250,000	7.1%	15.4%
Total	136,156,706	153,912,010	13.0%	166,274,971	8.0%	22.1%

⁵ The Debt Service Levy increased significantly from 2001 to 2002 due to the elimination of HACA. ⁶ This amount has already been set by voter approval.

⁷ The Municipal Building Commission (MBC) property tax levy for year 2002 was adjusted to reflect an error in calculation from the prior year 2001 amount. In 2001, the MBC received cash from a General Fund transfer, which was then correctly replaced with property tax levy in year 2002.

This amount is set by state law.

⁹ This amount is set by state law.

APPENDIX B

Adopted Certified Property Tax Levies Plus State Aids For City Council, Independent Boards, and Special Levies

	1994 Adopted	2002 Adopted	2003 Proposed	Cumulative % Change from 1994 to 2002	Cumulative % Change from 1994 to 2003
City Council	105,998,100	150,818,760	165,715,346	42.3%	56.3%
City Council Debt Service	16,000,000	28,560,040	29,060,040	78.5%	81.6%
Park Board	29,354,000	46,950,759	46,465,653	59.9%	58.3%
Library Board ¹⁰	14,491,000	20,833,485	21,111,137	43.8%	45.7%
Municipal Building Commission ¹¹	3,030,000	3,607,966	3,854,241	19.1%	27.2%
Board of Estimate and Taxation	202,000	236,000	245,553	16.8%	21.6%
City Council Pensions ¹²	18,855,000	7,373,000	9,373,000	-60.9%	-50.3%
City Council Community Development (Special Levy)	n/a	4,000,000	4,160,000	n/a	n/a
Minneapolis Public Housing Authority (Special Levy)	937,000	1,000,000	1,040,000	6.7%	11.0%
Teachers Retirement Fund (Special Levy) ¹³	1,250,000	2,100,000	2,250,000	68.0%	80.0%
Total	190,117,100	265,480,010	283,274,971	39.6%	49.0%

This amount includes \$450,000 (year 2003) of levy for payment on bonds set by voter approval.
 The Municipal Building Commission (MBC) property tax levy for year 2002 was adjusted to reflect an error in calculation from the prior year 2001 amount. In 2001, the MBC received cash from a General Fund transfer, which was then correctly replaced with property tax levy in year 2002.

This amount is set by state law.

This amount is set by state law.

/ Taxes
Property
<u>ه</u>
Demand
Annual D
ear /
Ten-
IIBIT A:

ᆕ	BIT A: Ten-Year Annual Demand on Property Taxes	Year Annu	al Demar	nd on Pro	perty Tax	es Projecter	d (before	es Projected (before policy decisions)	(sions)		
Annual Property Tax Revenue Increases (in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
City General Fund Operations:	o	08.2	7.53	9	70 a	0 4 0	d	7	0 07	77	12.02
Net base increase Decision Packages - New Programs/Initiatives	9.00 9.65	0.00	2.70	5.5	6.0	9. 1	9.90	5	- - - - -	- - 1.	70.7
Health Insurance (in addition to base increase)	3	5	2.10	2.44	2.83	3.28	3.80	4.41	5.11	5.93	6.88
Infrastructure Maintenance Gap Closure Program		1.60	0.55	0.80	0.80	0.80	0.80	0.80	0.80		
PERA Employer Contribution (change in formula)			0.40	2							2
CUBG overallocation for Block E project				9.5	6		6	6		Ċ	(00.1)
Seir Insurance Fund (placeholder)	,	5	,	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Intergovernmental Services Fund adopted workout plan	9.5	3.5	02.	02.1	02.5	02.0	02.1	02.1	02.1		
Equipment Services Fund adopted workout plan	9.1	0.1	2.00	2.00	2.00	2.00					
For Abetement			01:0)	3							
Lax Abatement General Fund Contingency			0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.30	0.50
Targeted Strategies to Decrease Spending/Raise Fees	(9.31)	(6.74)	(13.87)	00	5	00	0.50	5	0.50	9.30	0.00
Subtotal	4.33	4.98	(5.19)	17.77	16.59	17.50	16.50	17.61	18.82	18.19	18.70
City Capital/Debt:											
Infrastructure Capital Gap Closure Program began in 1999	2.00		1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
Permanent Improvement Fund			(0.05)	0.19	0.20	0.21	0.42	0.44	0.46	0.48	0.50
Ten Year Debt Reduction Program began in 1999	0.90	0.30	0.90	0.90	0.90	0.90	0.90	0.90	0.90		
Public Safety Initiative began in 2001		0.50	0.50	0.50							
Local Govt Aid/HACA - Chg in Distribution			3.40								
Judgement Bonds		1.10									
Subtotal	2.90	2.50	2.78	2.59	2.10	2.11	2.32	2.34	2.36	1.48	0.50
City Total	7.23	7.48	0.59	20.36	18.69	19.61	18.82	19.95	21.18	19.67	19.20
Independent Boards and Special Levies											
Park Board Base Levy (4.0% growth factor beg. in 2003)	1.57	1.54	1.88	1.66	1.73	1.80	1.87	1.94	2.02	2.10	2.19
Park Board - Local Govt Aid/HACA - Chg in Distribution			1.41	(1.00)							
Park Board Operating (Referendum Agreement)		1.13	1.20	1.30	1.30						
Park Board Capital (Referendum Agreement)		1.50	2.50	1.50	1.00						
Subtotal Park Board	1.57	4.17	66.9	3.46	4.03	1.80	1.87	1.94	2.02	2.10	2.19
Library Board Base Levy (4.0% growth factor)	0.65	0.63	2.03	0.69	0.71	0.74	0.77	08.0	0.83	0.87	06.0
Library Board - Local Govt Aid/HACA - Chg in Distribution			(0.55)								
Library Board - Referendum Levy				0.40	3.00	3.00	3.00	3.00			
Subtotal Library	0.65	0.63	1.48	1.09	3.71	3.74	3.77	3.80	0.83	0.87	0.90
Municipal Bldg Commission (4% growth factor)	0.05	0.13	0.76	0.23	0.24	0.25	0.26	0.27	0.28	0.29	0.30
Community Development - Chapter 595 Special Levy			4.00	4.00	4.00	4.00	4.00	4.00			
Minneapolis Public Housing Authority - Special Levy	,			1.00	1.40						
Teachers Retirement Assoc Special Levy	0.15	0.15	0.15	0.15	Ċ	1	d	Ċ	•	1	9
Pension Funds MEKF, Police, and Fire	(1.45)	(2.13)	3.86	2.00	2.20	2.70	3.20	3.50	1.30	0.70	0.40
Total Independent Boards and Special Levies	0.97	2.95	17.24	11.93	15.58	12.49	13.10	13.52	4.44	3.96	3.79
Grand Total	8.20	10.44	17.83	32.28	34.27	32.10	31.92	33.46	25.62	23.63	22.99
Total Property Tax Revenue	125.72	136.16	153.99	186.27	220.54	252.64	284.56	318.03	343.65	367.27	390.27
Annual Percent Increase		8.3%	13.1%	21.0%	18.4%	14.6%	12.6%	11.8%	8.1%	%6.9	6.3%